

MINUTES

FINANCE & ECONOMIC DEVELOPMENT (TOURISM / VISITOR INDUSTRY / SMALL BUSINESS DEVELOPMENT / SPORTS & RECREATION DEVELOPMENT / OTHER ECONOMIC DEVELOPMENT AREAS) COMMITTEE

March 5, 2014

A meeting of the Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee of the County of Kaua'i, State of Hawai'i, was called to order by Mason K. Chock, Sr., Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Lihue, Kaua'i, on Wednesday, March 5, 2014, at 10:31 a.m., after which the following members answered the call of the roll:

Honorable Gary L. Hooser
Honorable Ross Kagawa
Honorable Mason K. Chock, Sr.
Honorable Tim Bynum, Ex-Officio Member
Honorable Jay Furfaro, Ex-Officio Member

Excused: Honorable Mel Rapozo
Honorable JoAnn A. Yukimura

Minutes of the February 19, 2014 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee Meeting.

Upon motion duly made by Councilmember Kagawa, seconded by Councilmember Hooser, and carried by a vote of 3:0:2 (*Councilmember Rapozo and Councilmember Yukimura were excused*), the Minutes of the February 19, 2014 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee Meeting was approved.

The Committee proceeded on its agenda item, as follows:

C 2014-53 Communication (02/05/2014) from Councilmember Bynum, requesting the presence of the Director of Finance and the Budget & Purchasing Director, for a broad discussion and presentation on the budget trend analysis and identified challenges for the upcoming Fiscal Year 2014-2015 budget session for the County of Kaua'i. (This item was Deferred.)

Chair Chock: There was a communication that requested to defer this item from the Administration and from our Finance Director to March 19, 2014; in two (2) weeks.

LORI L. MARUGAME, Council Services Assistant: We have one (1) registered speaker for this item.

Chair Chock: Okay. We will take the registered speaker at this time.

Ms. Marugame: Lonnie Sykos.

There being no objections, the rules were suspended.

LONNIE SYKOS: Thank you Committee Chair, Council Chair and Councilmembers. For the record my name is Lonnie Sykos. I will save the bulk of my questions after the Finance Department come in and answers the questions that you will present to them but from the public one (1) of the things we are quite aware of is our reduction in property tax collections. Roughly matches the loss of the funds that we had in surplus and through public testimony the numbers roughly match up that we are sixty million dollars (\$60,000,000) reduction in our surplus and that roughly matches the lack of revenue increases since 2008. What the public would like to know is we have heard in the past that this was for economic stimulation, to preserve jobs, the rest of the reasons that the Administration will present. But what we would like to know is, what is the quid pro quo? How do we replace our money that we have given to corporations, increased profit margins, whether it is seed fields, resorts, the owners of vacant land who are waiting for, to make profit through development that they have reaped an enormous benefit during the economic decline and that the public has had to absorb that. What does the public get out of it? Minimum pay jobs, poverty level wages, supporting transportation to and from work, commuting expenses, food stamps through the federal agencies, our own money that we give to food banks and other food support, the housing support that we give, all of these things are draining the middle class and lower class and they increase the profit margins of the wealthiest persons on the island. What is the policy change that is going to occur so that we quit draining our reserves, which are almost drained and bring the collection of moneys in the balance with what we spent? For many of us, that is the primary question that we would like to have answered. As you develop your questions for the Administration basically at last year's budget hearings the Mayor started by stating that the economic policy for the County was to wish and hope that the global economy would get better.

Chair Chock: That was your first three (3) minutes. Would you like another three (3)?

Mr. Sykos: Yes. Thank you. And so, I do not subscribe to that as either a political or economical theory, I think that is suicidal. Given that we have been operating under this policy of wishing and hoping that the world's economy would get better, it has slowly but it is not going to solve our current economic problems. We need to have a policy that is stated and written that tells us how we are going to get out of, basically, the ditch that we have fallen into? These

are the types of questions that we would like to hear the answers from the Administration. That is basically all I have to say today.

I guess as a related thing about our budget, two (2) of the departments in the County that I am extremely happy with are the Police Department and the Department of Public Works and the reason is that they have a focus on, first off the managers that we hired have both the educational background and the prior experience to be competent at their jobs. They have demonstrated their competency by increasing the services that they provide while controlling the costs. Both, the Police Chief and the County Engineer inherited departments that had serious systemic problems which they have addressed and for both, the Police Department and Public Works. Of course there are things that they can do to improve but given where they were ten (10) years ago, to me, they are the poster child of how departments should be organized, how managers should be selected and hired, and in those two (2) departments the public sees a good attempt and functional attempt to change how things were done in the past and apply new national standards, national best practices, and get the escalation of cost under control to provide the services that they are suppose to provide. Our roads are horrible but it is not the fault of the current people running Public Works. They have done an excellent job of dealing with all of the deficiencies that they inherited, likewise, with the Police Department. This focus on manager excellence needs to be addressed.

Chair Chock: Six (6) minutes.

Mr. Sykos: Thank you very much.

Chair Chock: Can you just stay there Mr. Sykos in case we have questions. I just wanted to, in addition to what you mentioned in terms of the budget, I am looking at the calendar here, April of this year for budget reviews. In particular April 4, 2014 is scheduled for review of the real property taxes. So this discussion will be had in more detail in terms of what you are speaking about. Members any questions for Mr. Sykos?

Mr. Furfaro: I do.

Chair Chock: Please Council Chair.

Mr. Furfaro: First of all, Lonnie, thank you for your compliments to both Police and Engineering. Larry Dill has done an exceptional job. We just talked to him about some road pieces. I have known Larry for a long time, he use to be my Chief Engineer at Princeville when I was the Operating Officer. He is a talented guy and we are lucky to have him and the Chief has done really a great job in filling the kind of vacancies that have been placed with his new approach to recruitment. I think we are doing two (2) recruiting classes now. We have come from twenty-seven (27) vacancies to a number that is single digit because of that effort. First of all, I would like to let you know that in the years 2006 through 2009...I disagree a little bit with what the real comment was about the available funds because each year we do carry over about fifteen million dollars (\$15,000,000) that starts the next year so the number was more like forty-four million dollars (\$44,000,000) back in that period. Also, that was kind of the height of the appraised values of property statewide, not just Kaua'i, so that contributed to that extra funding. But flip side of the coin, we equally had a number of people that talked to us in terms of too much of a surplus. I would just like to ask you from general accounting practices, we are trying to get to a point that the County has

about a fifteen million dollar (\$15,000,000) surplus. Do you have any opinion on that?

Mr. Sykos: I actually do have an opinion and I am kind of torn because on the one (1) hand the larger the surplus is the greater the cushion we have for unexpected events such as hurricanes, tsunamis, world war, whatever could occur.

Mr. Furfaro: Have you been able to read the policy that I introduced about how that money should be used? If not, I will be glad to get you a copy of it.

Mr. Sykos: I have followed this through the Council's deliberations and do not pretend to be an expert but I think I have a general understanding.

Mr. Furfaro: I will be glad to get you a copy. By budget time I would like to get your feedback on where you think the reserve should be. What is fair and reasonable and then as we go through what we are seeing now with the period of 2010 – 2014, we find ourselves having a lot of bargaining union contracts that have come up.

Mr. Sykos: Correct.

Mr. Furfaro: ...that have added large percentages for people that, they did the right thing at the time when we were tight and so we are dealing with a number of significant increases there. You are aware of that?

Mr. Sykos: I am aware of it and I am also aware that it is no surprise that the contracts were coming up and that pay raises were the most likely outcome. I would be surprised if the Administration is surprised that they had a significant increase in operating expense because of the pay raises. The amount was not predicable exactly but that it would occur was predictable.

Mr. Furfaro: And you are aware of how those votes are cast? The County of Kaua'i only has one (1) of nine (9) votes when it comes through.

Mr. Sykos: Yes, basically even if we had, which I have been a critic of, feeling that we are not proactive enough during the negotiations and then during the arbitration. In arbitration basically our hands are tied because it is up to the arbitrator. We may or may not have been able to influence the amount of the raise more but the fact that it was going to occur should not have been a surprise to anybody.

Mr. Furfaro: That is a fair assumption on your part and I think part of it is we on the neighbor islands now are trying to change that culture a little bit. We are saying, for example yesterday the Transient Accommodations Tax (TAT) Bill came across from the House This time all four (4) Chairmen from the four (4) Counties, all when to speak to Mr. Joseph Souki and his Committees and it got crossed over so I think the bottom line is the environment from the neighbor islands is changing, we are trying to speak up more and just not leave it at status quo. But thank you very much Lonnie.

Mr. Sykos: Okay.

Mr. Furfaro:

Thank you, Council Vice Chair.

Chair Chock:
Bynum.

Any other questions? Councilmember

Mr. Bynum: Lonnie, thank you for being here. Your attention to our business is appreciated. We are deferring this till two (2) weeks so we will have further discussion but your observation about the size of the surplus and what happened to it is all public record, it is in our Comprehensive Annual Financial Report (CAFR). We know that is not a mystery where the money went. You are correct, it went to, mostly, primarily out-of-state landowners, large corporations, big landholders while at the same time taxes and fees for residents here went up. I just want to say that observation is accurate but our surplus is gone, it is gone. He said, he meaning Steven Hunt, who is a real asset because he has given us straight, factual and making himself very available to all of us, basically said "We are going the entire surplus that is available to us and that is still not going to be enough." He is going to have to do something dramatic and I think, personally we should not deplete our surplus completely, even if we make a token down payment at replenishing it to a reasonable level. My question though, because this is supposed to be a question but thank you for your comments, when you say we should be more assertive in the negotiations with employees, we should have demanded that their raises are less? Do you think they got more than was reasonable after all of this time? What was the position we would take if we more assertive?

Mr. Sykos: I was responding to, I believe, what was in the press and was testimony here that during the arbitration, the binding arbitration side that the negotiators from Kaua'i were basically silent and that our negotiators observation was that because Honolulu dominates because of the scale of their Police Department in the number of officers and all. Basically the deal was between Honolulu and the arbitration. I am a Maui boy. I lived on Maui for twenty-five (25) years. Joseph Souki was the head of our political effort to get the rest of the Counties to combine and try to counter balance the power that O'ahu has through numbers and scale of economy to the outer islands. So I am quite familiar with the outer island basically having no voice given that combined it is still small.

Mr. Bynum: I just want to get to the question but you are right, unless all four (4) Mayors work together, which happened a couple of years ago with our Mayor and the four (4) Mayors then the Governor just have to have one (1) Mayor and the other Counties are aced out but that is a system we have. It is much bigger than the County Council to refurbish that but given that is the system we have, all of these things are public record, State and County workers forgo raises for years, they paid increase for their medical, they were furloughed, they did their part and now you are right, you are totally correct that it should be no surprise that we are going to do what, I think is the right thing and give back to a reasonable compensation for our employees but that has created this huge challenge. All of the money went away and expenses went up.

Mr. Sykos:

Correct.

Mr. Bynum: Stay tuned because we have to work that all out in the next couple months. Thank you.

Chair Chock:
you, Mr. Sykos.

Thank you. Any further questions? Thank

Mr. Sykos: Thank you very much.

The meeting was called back to order, and proceeded as follows:

Chair Chock: Any further discussion? Council Chair Furfaro.

Mr. Furfaro: Yes, I do want to say in the approach here, yesterday if you followed the TAT Bill crossed over from the house as getting us back to our original amount. I want to thank the House of Representative Speaker, Mr. Souki. One (1) comment he made, four (4) of us went in to see him in his office, the four (4) Chairman and he said that in his thirty-one (31) years in the state government, he has never had an opportunity that the four (4) island County Council Chairs have come in to talk to him specifically about the need for us to get the our fair share. The Bill crossed over; let us wish it luck in the Senate. Thank you.

Mr. Kagawa: I was just wondering, because we are almost starting budget talks soon...

Mr. Furfaro: March 28, 2014.

Mr. Kagawa: I was just wondering if we are deferring and then we are just going to keep talking about having the same items on the same issue then perhaps the Committee may want to receive this but if you folks want to keep this on that is fine too. It will just give us more opportunities to keep speaking on basically the same issue but for me, this is why I am hesitant to even ask questions of Lonnie or discuss this is that this is going to be the toughest budget ever. Last year we said this about the budget and this year it is even worst. It is really a tough challenge. Everything has to be open anyway to increase revenues and anyway to decrease our expenditures. I think it has to be on the table because we are really setting the tone for the future and I really worried going into this budget. Thank you everyone.

Chair Chock: Thank you. Yes, I am expecting a robust discussion and presentation by the Director of Finance so I am looking forward to it and deferring it to hear that in two (2) weeks, so thank you for that consideration were we can actually ask questions and get answers from them. So I need a motion if possible for this.

Upon duly motion made by Councilmember Hooser, seconded by Councilmember Kagawa, and carried by a vote of 3:0:2 (*Councilmember Rapozo and Councilmember Yukimura were excused*), C 2014-53 was deferred.

The Committee proceeded on its agenda item, as shown in the following Committee Report which is incorporated herein by reference:

CR-FED 2014-15: on Bill No. 2529

A BILL FOR AN ORDINANCE AMENDING
ORDINANCE NO. B-2013-753, AS
AMENDED, RELATING TO THE
OPERATING BUDGET OF THE COUNTY
OF KAUAI, STATE OF HAWAII, FOR THE
FISCAL YEAR JULY 1, 2013 THROUGH
JUNE 30, 2014, BY REVISING THE
AMOUNTS ESTIMATED IN THE
GENERAL FUND (*Police Department
Workers Compensation Medical – \$110,000*)
(**Approved.**)

There being no further business, the meeting was adjourned at 11:04 a.m.

Respectfully submitted,



Lori L. Marugame
Council Services Assistant I

APPROVED at the Committee Meeting held on March 19, 2014:



MASON K. CHOCK, SR.
CHAIR, FED COMMITTEE